L.G.S. Investments (Holdings) Limited

Directors' report and consolidated financial statements

For the seven month period ended 30 June 2001

Registered number 2873071

L.G.S. Investments (Holdings) Limited

Directors' report and financial statements

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L.G.S. Investments (Holdings) Limited

Directors' report

The directors present their report and audited financial statements for the seven month period ended 30 June 2001. The company changed its year end from 30 November to 30 June during the period.

Principal activities

The company is a special purpose company whose only activity is to hold an investment in LGS Investments plc. LGS Investments plc is an investment company whose only activity is to hold local authority loan instruments acquired on 22 May 1995 and to service bonds which were issued on the same day to finance the purchase. The local authority loan instruments have been pledged to Bankers Trustee Company Limited as security for the bonds.

Results and dividends

The company had no income during the period and incurred no expenses. Accordingly a profit and loss account has not been prepared.

The group made a loss of £2,872 *(2000:profit of £3,184)* during the period which was retained by the subsidiary company and the directors do not recommend the payment of a dividend.

Directors and directors' interest

The following directors held office during the period:

SPV Management Limited
Mr R Baker

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the company.

Auditors

In accordance with Section 348 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

SPV Management Limited
Secretary

78 Cannon Street
London
~~January~~ 2002
18th February.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

KPMG

KPMG Audit Plc
PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Auditors' report to the members of L.G.S. Investments (Holdings) Limited

We have audited the financial statements on pages 4 to 12.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements as described on page 2. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the director's report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Boards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company and the group affairs as at 30 June 2001and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditors

28 February 2002

L.G.S. Investments (Holdings) Limited

Consolidated profit and loss account
for the seven month period ended 30 June 2001

	Note	**Period to 30.06.01 £**	Year to 30.11.00 £
Income from fixed asset investments	*4*	**3,762,909**	6,431,564
Interest payable and similar charges on bonds in issue	*5*	**(3,748,005)**	(6,406,085)
		14,904	25,479
Administrative expenses		**(18,467)**	(22,468)
Operating (loss) / profit		**(3,563)**	3,011
Other interest receivable and similar income		**691**	960
(Loss) / Profit on ordinary activities before taxation	*2*	**(2,872)**	3,971
Tax on profit on ordinary activities	*6*	**-**	(787)
Retained (loss) / profit for the year		**(2,872)**	3,184
Retained profit brought forward		**28,486**	25,302
Retained profit carried forward		**25,614**	28,486

Reconciliation of movements in shareholders' funds
for the seven month period ended 30 June 2001

	Period to 30.06.01 £	Year to 30.11.00 £
(Loss) / Profit for the financial period	**(2,872)**	3,184
Opening shareholders' funds	**28,487**	25,303
Closing shareholders' funds	**25,615**	28,487

There were no gains or losses during the current period or preceding year other than those passing through the profit and loss account. All the turnover and results for the period arise from continuing operations for both the current period and preceding year. A note on historical cost gains and losses has not been included as part of the financial statements as the results as disclosed in the profit and loss account are prepared on a unmodified cost basis.

L.G.S. Investments (Holdings) Limited

Consolidated balance sheet
at 30 June 2001

	Note	**30 June 2001** £	**30 June 2001** £	30 November 2000 £	30 November 2000 £
Fixed assets					
Investments	*7*		**72,042,023**		72,030,309
Current assets					
Called up share capital not paid		**1**		1	
Debtors	*8*	**1,350,549**		169,494	
Cash at bank and in hand	*12*	**32,838**		40,455	
		1,383,388		209,950	
Creditors: amounts falling due within one year	*9*	**(1,344,868)**		(168,599)	
Net current assets			**38,520**		41,351
Total assets less current liabilities			**72,080,543**		**72,071,660**
Creditors: amounts falling due after more than one year	*10*		**(72,054,928)**		(72,043,172)
Net assets			**25,615**		28,488
Capital and reserves					
Called up share capital	*11*		**1**		1
Profit and loss account			**25,614**		28,487
Equity shareholders' funds			**25,615**		28,488

These financial statements were approved by the board of directors on 18th February 2002 and were signed on its behalf by:

SPV Management Limited
Director

L.G.S. Investments (Holdings) Limited

Balance sheet
at 30 June 2001

	Note	**30 June 2001**		30 November 2000	
		£	**£**	£	£
Fixed assets					
Investments	*7*		**12,500**		12,500
Current assets					
Called up share capital not paid		**1**		1	
Investment in subsidiary not paid		**-**		-	
		1		1	
Creditors: amounts falling due within one year	*9*	**-**		-	
Net current assets			**1**		1
Total assets less current liabilities			**12,501**		12,501
Creditors: amounts falling due after more than one year	*10*		**(12,500)**		(12,500)
Net assets			**1**		1
Capital and reserves					
Called up share capital	*11*		**1**		1
Profit and loss account			**-**		-
Equity shareholders' funds			**1**		1

These financial statements were approved by the board of directors on 18th February 2002 and were signed on its behalf by:

SPV Management Limited
Director

L.G.S. Investments (Holdings) Limited

Consolidated cash flow statement
for the seven month period ended 30 June 2001

	Note	**Period to 30.06.01 £**	Year to 30.11.00 £
Cash flow statement			
Cash flow from operating activities	*12*	**(23,095)**	(24,885)
Returns on investments and servicing of finance	*13*	**15,478**	26,510
Taxation		**-**	(481)
(Decrease) / Increase in cash in the period		**(7,617)**	1,144

L.G.S. Investments (Holdings) Limited

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard No 8, Related Party Disclosures, the company has taken advantage of the partial exemption not to disclose transactions with group companies.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2001. The acquisition method of accounting has been adopted. Under this method, the results of the subsidiary are included in the consolidated profit and loss account for the period.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Investments

Investments are recorded at cost, plus or minus accrued premium or discount on acquisition which is amortised to generate a constant yield to maturity.

Debt securities issued

Debt securities are recorded at cost, plus or minus accrued premium or discount on issue which is amortised to generate a constant yield to maturity.

2 Profit on ordinary activities before taxation

The company had no income and incurred no expenses. Accordingly a profit and loss account has not been prepared.

	Period to 30.06.01	Year to 30.11.00
	£	£
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration		
Audit	**4,201**	4,201
Other services	**5,963**	4,200

3 Remuneration of directors

None of the directors received remuneration for their services to the group, apart from fees of £6,187 (2000:£10,572) paid to SPV Management Limited, a director of the group, during the period for professional services provided on normal commercial terms by the company.

4 Income from fixed asset investments

	Period to 30.06.01 £	Year to 30.11.00 £
Income from fixed asset investments		
Unlisted	**3,751,195**	6,413,050
Amortised discount	**11,714**	18,514
	3,762,909	6,431,564

5 Interest payable and similar charges on bonds in issue

	Period to 30.06.01 £	Year to 30.11.00 £
Interest paid on bonds in issue	**3,736,250**	6,387,500
Amortised discount	**11,755**	18,585
	3,748,005	6,406,085

6 Taxation

	Period to 30.06.01 £	Year to 30.11.00 £
UK corporation tax at 20% (2000: 20%) on the profit for the period on ordinary activities	**nil**	787
	nil	787

Notes *(continued)*

7 Fixed assets investments

Group

	£
Cost	
At the beginning and end of the period	**71,948,800**
Amortised discount	
At the beginning of the period	81,509
Amortised discount for the period	11,714
At the end of the period	93,223
Net book value	
As at 30 June 2001	**72,042,023**
As at 30 November 2000	72,030,309

The fixed asset investment comprises unlisted debt securities. The local authority loan instruments purchased have been pledged to Bankers Trustee Company Limited as security for bonds issued.

Company

	£
Cost	
At the beginning and end of the period	**12,500**

The company's fixed asset investment is the shares in its wholly owned subsidiary, LGS Investments plc.

8 Debtors

Group	**30 June 2001**	30 November 2000
	£	£
Other debtors	**646,416**	10,222
Prepayments and accrued income	**704,133**	159,272
	1,350,549	169,494

All debtors were due within one year.

9 Creditors: amounts falling due within one year

Group	**30 June 2001**	30 November 2000
	£	£
Other creditors including taxation	**639,538**	1,381
Accruals and deferred income	**705,330**	167,218
	1,344,868	168,599

Notes *(continued)*

7 **Fixed assets investments**

Group

	£
Cost	
At the beginning and end of the period	**71,948,800**
Amortised discount	
At the beginning of the period	81,509
Amortised discount for the period	11,714
At the end of the period	93,223
Net book value	
As at 30 June 2001	**72,042,023**
As at 30 November 2000	72,030,309

The fixed asset investment comprises unlisted debt securities. The local authority loan instruments purchased have been pledged to Bankers Trustee Company Limited as security for bonds issued.

Company

	£
Cost	
At the beginning and end of the period	**12,500**

The company's fixed asset investment is the shares in its wholly owned subsidiary, LGS Investments plc.

8 **Debtors**

Group	**30 June 2001**	30 November 2000
	£	£
Other debtors	**7,666**	10,222
Prepayments and accrued income	**704,133**	159,272
	711,799	169,494

All debtors were due within one year.

9 **Creditors: amounts falling due within one year**

Group	**30 June 2001**	30 November 2000
	£	£
Other creditors including taxation	**788**	1,381
Accruals and deferred income	**705,330**	167,218
	706,118	168,599

10 Creditors: amounts falling due after more than one year

Group

	30 June 2001	30 November 2000
	£	£
Bonds in issue at cost	**71,948,800**	71,948,800
Amortised discount	**93,628**	81,872
Bank loan	**12,500**	12,500
	72,054,928	72,043,172

	30 June 2001	30 November 2000
	£	£
Amount repayable, other than by instalments, after more than five years	**72,054,928**	72,043,172

The bonds, which are redeemable by 22 May 2020, have a nominal value of £73,000,000 and bear interest at 8.75% per annum.

Company

	30 June 2001	30 November 2000
	£	£
Bank loan	**12,500**	12,500

11 Called up share capital

	30 June 2001	30 November 2000
	£	£
Authorised		
100 ordinary shares of £1 each	**100**	100
Allotted, called up and unpaid		
Ordinary shares of £1 each	**1**	1

L.G.S. Investments (Holdings) Limited

Notes *(continued)*

12 Reconciliation of operating profit to operating cash flows

	Period to 31.08.01	Year to 30.11.00
Operating profit	(3,563)	3,011
Interest receivable	(3,751,195)	(6,413,050)
Interest payable	3,736,250	6,387,500
Amortisation of discount on debt securities issued	11,755	18,585
Amortisation of discount on debt securities purchased	(11,714)	(18,514)
Decrease in creditors	(542,147)	(617)
Decrease in debtors	537,519	(1,800)
Net cash outflow from operating activities	(23,095)	(24,885)

13 Returns on investments and servicing of finance

	Period to 30.06.01	Year to 31.11.00
Interest received	3,751,728	6,414,010
Interest paid	(3,736,250)	(6,387,500)
Balance at end of period	15,478	26,510

14 Related party disclosures

The ultimate controlling party is SPV Management Limited, as trustee.